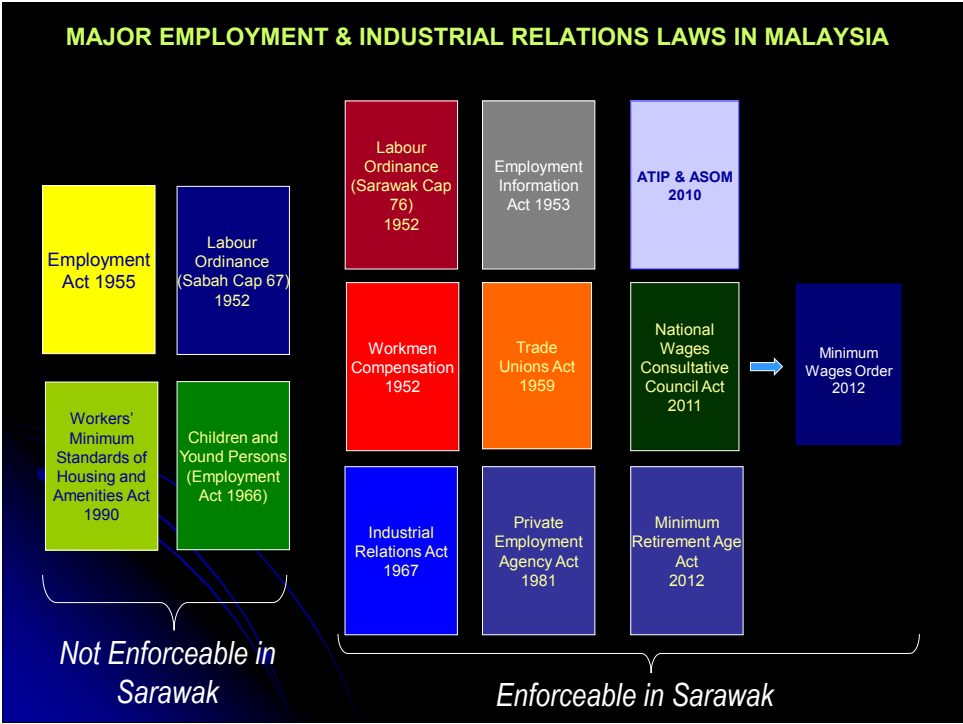
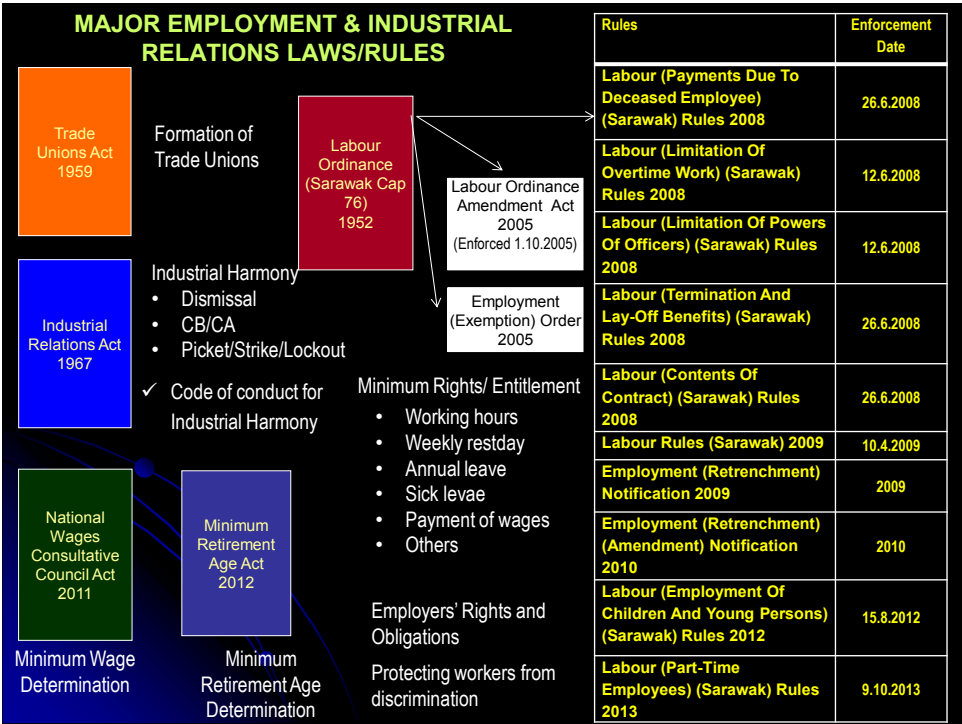


The Impacts of Minimum Wage Implementation in Malaysia: An Update

First Regional Conference on
Current Developments in
Employment Law in
Malaysia and the ASEAN Countries

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NATIONAL WAGES CONSULTATIVE COUNCIL ACT 2011

(Act 732)

LAWS OF MALAYSIA

NATIONAL WAGES CONSULTATIVE COUNCIL ACT 2011 (Act 732)

MINIMUM WAGES ORDER 2012

Extension of Minimum Wages Order 2012

- ☐ Minimum Wages Order (Amendment) 2012
- ☐ Minimum Wages Order (Amendment) 2013
- ☐ Minimum Wages Order (Amendment) (No.2) 2013 &
- ☐ Minimum Wages Order (Amendment) (No.3) 2013

Wages Determination in Malaysia

- ❑ Private sector
 - ❖ National Wages Consultative Council
 - ❖ Collective Bargaining and Collective Agreement
 - ❖ Market forces
- ❑ Public sector
 - ❖ Structured

Trade unions density in Malaysia					
Number of Workforce, Trade Unions and Employees Covered, Malaysia 2010 -2014					
Workforce, Unions and employees' covered	2010	2011	2012	2013	2014
Total number of labour force employed ('000)	11,899.5	12,284.4	12,723.2	13,210.0	13,532.1
Number trade unions	690	697	690	706	735
Number of employees covered	803,289	800,171	889,718	914,677	930,512
Unions density	6.7 %	6.5%	7%	7%	6.9%

Source: Department of Trade Unions Affairs; Department of Statistics

Number of Collective Agreement, Malaysia

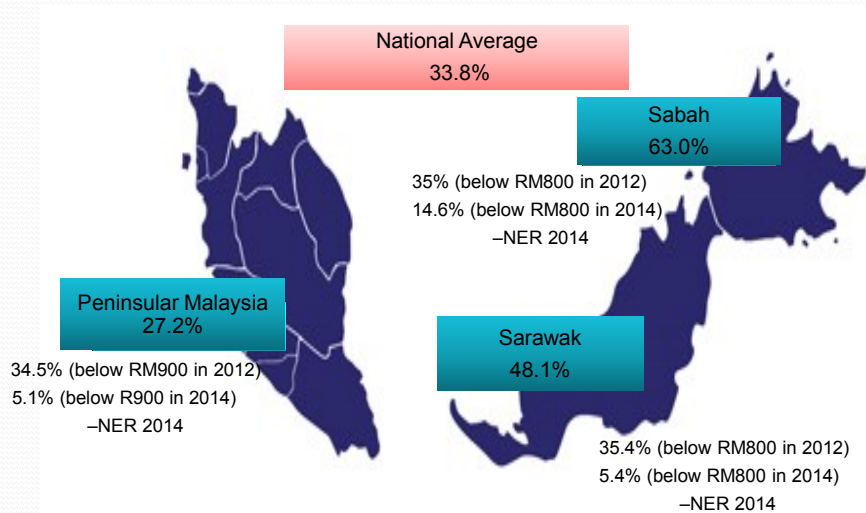
Indicator	2010	2011	2012	2013	2014
Number of collective agreement	330	322	290	312	270
Number of employees covered	141,411	148,772	107,895	137,093	145,408

Source: Department of Industrial Relations

Issues

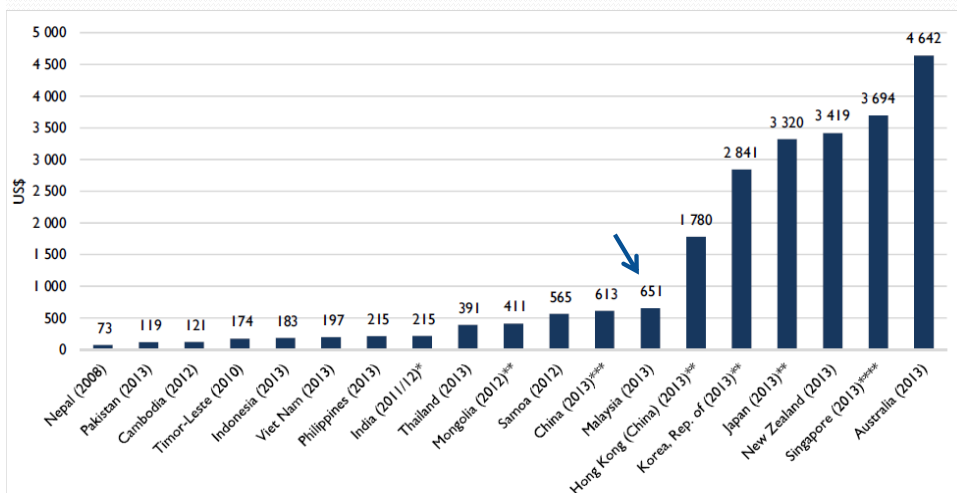
- The ratio of highly skilled to low-skilled labour is relatively low (25% to 75%) while in Singapore the ratio is 49% highly skilled labour: 51% low-skilled labour. Taiwan and Korea have 67% and 65% proportion of low skills workers respectively.
- Real wages have recorded a slower growth (2.6% per year in the past 10 years) compared to the real labour productivity growth (6.0%) (World Bank, 2011).
- Under the Economic Transformation Programme (ETP), particularly the New Economic Model, Malaysia has set itself to break away from the "middle income trap" phenomena.
- The goal is to double income from US\$ 7,000 to US\$ 15,000 per capita by 2020.
- In order to transform this country from a middle income to an advanced nation with high income by 2020, Malaysia needs to invest in new technology, training & skills and innovation.

Percentage Low-income Workers In Malaysia (Below RM700 in 2009)



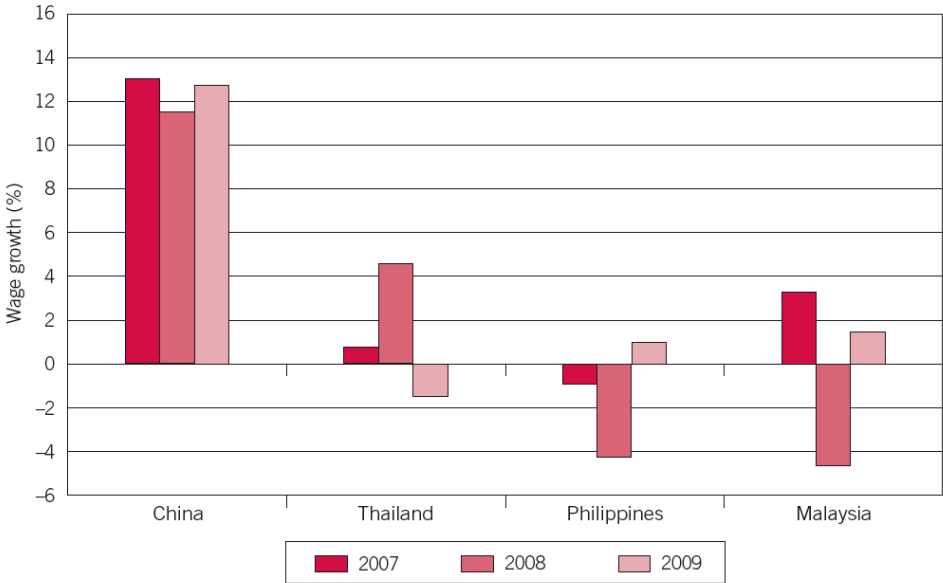
Source: National Employment Return (NER), Ministry of Human Resources 2009

Average monthly wages, Asia and the Pacific



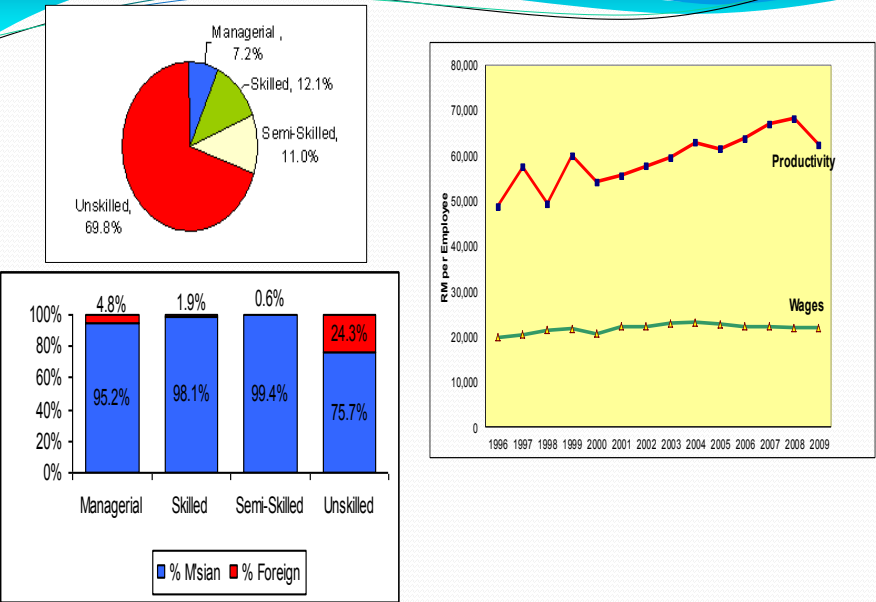
Source: ILO Global Wage Report 2014/15

Wage growth (%) in selected countries in Asia, 2007–2009



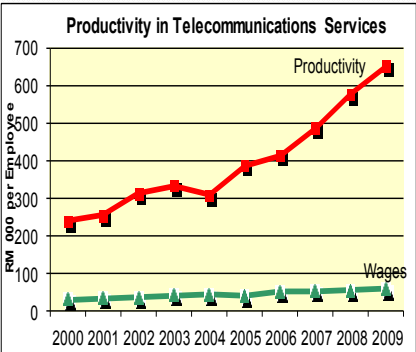
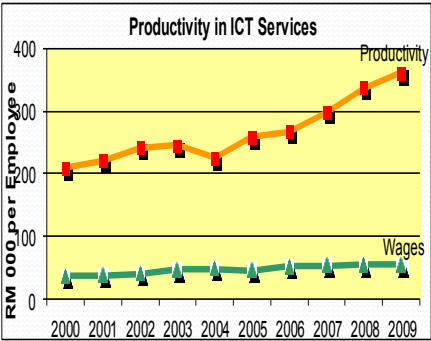
Source: ILO Global Wage Report 2010/11

Productivity and Wages in Manufacturing



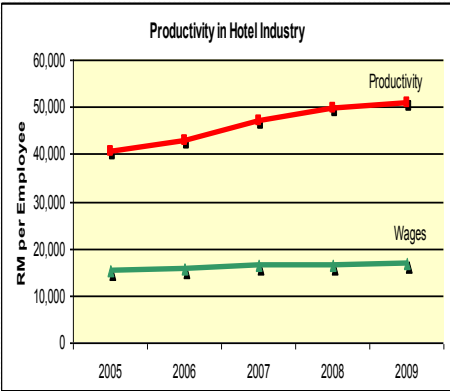
Source: Malaysian Productivity Corporation

Productivity and wages in Services Sectors 2009



Source: Malaysian Productivity Corporation

Productivity in Services Sectors 2009



Source: Malaysian Productivity Corporation

Why Minimum Wage is necessary?

- *To ensure the basic needs of workers and their families are met;
- *To provide sufficient social protection to workers;
- *To encourage industry to move up the value chain by investing in higher technology and increase labour productivity; and
- *To reduce the nation’s dependence on unskilled foreign workers.

Criteria for Fixing Minimum Wages

- Article 3 ILO Convention 131:

Justification	Criteria (Indicators)
The needs of workers and their families. This is to ensure adequate social protection for employed persons.	standard of living (guarantees workers a certain purchasing power), income inequality, financial capacity of enterprise
Economic situation	GDP growth, labour productivity, employment level, wage level, competitiveness, inflation rate

Need to reconcile two opposite kinds of considerations:

(i) there are social considerations of workers needs, standards of living and earnings inequality, which lead to the pressure – coming usually from labor unions – to increase the minimum wage.

(ii) there are economic considerations of productivity, competitiveness, and job creation, which result in the pressure – usually originating from employers’ organizations – to keep the minimum wage at a low level.

CRITERIA FOR DETERMINING MINIMUM WAGE MALAYSIA

	CRITERIA	JUSTIFICATION
BASE CRITERIA	Poverty Line Income (PLI)	Determine the basic needs of the worker and his / her family
	Median Wage	A point of reference for employers ability to pay
ADJUSTMENT CRITERIA	Changes in Consumer Price Index (CPI)	An indicator to reflect changes of cost of living
	Productivity Growth (P)	Re-aligning productivity growth with wage increase
	Real Unemployment Rate (UE)	To ensure wage increase do not hamper the market ability to create and retain employment

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Criteria/Norms for Setting MW

Country	Indicators
Thailand	Cost of living; ability to pay and economic condition.
South Korea	Cost of living; economic growth rate; average wages level; labour productivity; unemployment rate; consumer price index and income distribution.
Malaysia	Cost of living ; ability of firms to pay; labour productivity growth ; unemployment rate, and consumer price index. WB suggested that the size of informal sector to be taken into account.
India	3 consumption units per earner; minimum food requirement of 2700 calories per average Indian adult per day; clothing requirement of 72 yards per annum per family; rent, fuel, lighting and other miscellaneous items (20 per cent of the total MW). Children's education, medical requirement, minimum recreation, including festivals, ceremonies, provision for old age and marriage (25 per cent)- Supreme Court Judgement. CPI (1988) – (to protect wages against inflation/Dearness Allowance)

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SARAWAK

PLI _{SARAWAK}	= RM912.00
Avg workers per household (Bottom 40%)	= 1.2
Median Wage _{SARAWAK}	= RM738.71
Productivity Growth _{SARAWAK}	= 3.6%
Δ CPI _{SARAWAK}	= 2.7%
Real Unemployment Rate _{SARAWAK}	= 2.0%
(6% - 4%)	

$$MW_{Swk} = \frac{\left(\frac{912}{1.2} + 738.71\right)}{2} \times [1 + (0.036) + (0.027) - (0.020)] = \text{RM}781.58$$

MINIMUM WAGES RATES, MALAYSIA

Regions	Minimum Wages Rates (Ringgit Malaysia)			
	Monthly		Hourly	
	2013	2016 (1st July)	2013	2016 (1st July)
Peninsular Malaysia	900	1,000	4.33	4.81
Sabah, Sarawak and Wilayah Persekutuan Labuan	800	920	3.85	4.42

Source: Minimum Wages Order 2012; Budget Speech 2015

Daily Minimum Wages Rates of Selected Countries

Country	MW Rates (US\$)	Country	MW Rates (US\$)
Japan	45.29 - 60.78	Thailand	8.22
		China	4.34 - 9.52
South Korea	34.80	The Philippines	6.35 - 9.46
		Malaysia	5.67 - 6.71
Hong Kong	33.55	Vietnam	3.15 - 4.55
		Cambodia	4.13
Taiwan	27.72	Myanmar	2.77

Source: National Wages and Productivity Commission, 2015, <http://www.nwpc.dole.gov.ph>

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ISSUES WITH MINIMUM WAGE

❑ Guidelines /implementation

- ✓Restructuring issues, daily rates and piece rates, allowances, overtime, service charge, etc.
- ✓Three recent court cases related to MW.
 - ✓Gagah Perkasa Security Services S.B. vs. Mohamed Abdul Rashid & Ors. (High Court of Malaya, Kangar).
 - ✓National Union of Hotel, Bar and Restaurant Workers of Peninsular Malaysia (NUHBRW) vs. Crystal Crown Hotel Petaling Jaya (Award No. 875 of 2014).
 - ✓Union of Employees in Textile & Garments Industry Johore vs. Tai Wah Garments Industry Sdn. Bhd. (Award No. 744 of 2014).

❑ Non-compliance /inspection

✓ Some 587 of the 42,297 companies inspected were found to have not complied with the minimum wage policy as of January 31, 2015 (98% compliance). 177 prosecution papers were opened and of these, 109 or 62 per cent were given the go-ahead (the Malay Mail, March 11, 2015)

✓ In the case of Sarawak, for the period of January – September 2015, of 4,991 employers inspected, 93 has not complied to MW (98% compliance). In addition, 24 complaints and 25 claims (537 workers) have been received within the same period (Source : Department of Labour Sarawak, 2015).

✓ In the Peninsular Malaysia, a total of 24,437 labour inspections on minimum wages compliance were done and 23,952 employers or 98% employers have paid the minimum wages as per the Order. Up to 31 August 2014, 796 monetary claims were filed at the Department of Labour Peninsular Malaysia. Of this, 177 (22%) claims were resolved with balance of 619 claims still being handled by the officers (Source: Ministry of Human Resources).

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❑ Sparse research on the impact of MW post implementation

✓ The Institute of Labour Market Information and Analysis (ILMIA)– 2014 (one year after the implementation)

✓ Associated Chinese Chambers of Commerce and Industry- 2014 (after 6 months)

✓ Malaysian Plastics Manufacturers Association (MPMA) – 2014 (after 6 months)

✓ Sarawak Timber Association (STA)– 2013 (after 6 months)

✓ The World Bank – 2011 (prior to MW)

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RESEARCH FINDINGS ON MINIMUM WAGE

❖ A Study to Review the Minimum Wage: Impact on the Economy and Worker's Income Level, 2014

- ✓ Despite the increase in labour cost, nearly 80% of businesses across industries and regions (Peninsular, Sabah and Sarawak) stated that generally they were not significantly affected by the implementation of MW.
- ✓ Less than 20% reported significant impact of MW implementation on their sales volume.
- ✓ Nearly 70% respondents reported low to moderate impact of MW on their profitability. Only 30% of the respondents experienced significant reduction in profit as a result of MW implementation.
- ✓ Most of the firms across all regions have experienced increase in labour costs of between 20% to 30%.
- ✓ Increasing product's prices, reducing allowances and other cash payments as well as reducing non-wage benefits were among measures taken by firms across all regions and sectors to minimise the increase in labour costs.

Source: Institute of Labour Market Information and Analysis, 2015

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❖ A Study to Review the Minimum Wage: Impact on the Economy and Worker's Income Level, 2014 -

- ✓ Nearly half of the respondents in all regions reported reducing the employment of local workers. Only 9% of respondents in the Peninsular had reduced the employment of foreign workers compared to almost 20% in Sabah.
- ✓ Another 20% to 30% of firms across all the three regions indicated an increase in employment of local workers instead.
- ✓ Less than 20% respondents across all regions and sectors reported having high employees' turnover as a result of MW implementation.
- ✓ Across all regions nearly 12% firms opted to increase the investment on training of existing employees to improve their productivity.
- ✓ Confusion among employers on the difference between basic salary/wage and the minimum wage.

Source: Institute of Labour Market Information and Analysis, 2015

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❑ An Initial Review of the Implementation of the Malaysian Minimum Wage Order: A Case for a Win-Win Intention, Implementation and Enforcement.

- ❖ Foreign workers have benefited with an increase in wage of between 38% to 64% and had gained in terms of foreign exchange outflow; wage increase among local workers were between 13% to 29%.
- ❖ Rising labour costs among firms (including the knock-on or ripple effects, cost of overtime, attendance allowance, provident fund, SOCSO etc).
- ❖ Increase in operational cost of more than 25%.
- ❖ The implementation of MW has resulted in knock-on effects/ripple effects on overall wage structure of the firms.
- ❖ The need to consider productivity and readiness of the business sector to comply with the MW.
- ❖ Lack availability of statistical data, empirical studies or survey evidence on the impact of implementing the MW in Malaysia.
- ❖ Increasing workers' performance standards, cross-training, multitasking, expanding job duties, discouraging overtime, tightening up absenteeism and discipline, building employee skill and involvement were among the recommendations put forward to minimise the impact of MW implementation.

Source: Ghee, Teh Chee, Sum Kum Mooi, And Michelle Lee Meng Sang. "An Initial Review Of The Implementation Of The Malaysian Minimum Wage Order: A Case For A Win-win Intention, Implementation And Enforcement. Research Funded By The Associated Chinese Chambers Of Commerce and Industry In Malaysia

❖ Malaysian Plastics Manufacturers Association (MPMA)

- ✓ Direct labour cost in the plastic manufacturing sector had increased by 20% to 40% particularly among firms employing high number of foreign workers.
- ✓ Increase in manufacturing cost of more than 10% with 50% respondents suffering reduction in their profit margin by more than 10%.
- ✓ Limiting overtime work, increasing automation, reducing workers' benefit, employing lesser foreign workers and retrenchment were among the measures taken by firms to mitigate the impact of the MW implementation.
- ✓ The need for strict controls of operations, reducing wastage, business reengineering, relocation, strengthening leadership, merger as well as keeping workers happy to increase morale and productivity were among the recommendations made to cushion the impact of MW.

Source: Malaysian Plastics Manufacturers Association, 2014

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- ❖ A Study on Minimum Wage in Sarawak (Sarawak Timber Association, 2013)
 - ✓ MW has improved the income of low wage employees as majority of them were paid below MW (53.52%) prior to its implementation.
 - ✓ MW has impacted companies employing higher number of employees whose wages were less than MW.
 - ✓ Negative impact on profitability ranging between 0.14% (low) to 5.78% (high). Only 12.7% of the companies had suffered reduction in profit by more 20%.
 - ✓ Generally MW may not have a drastic effect on Sarawak competitiveness compared to other countries in the region such as Myanmar, Thailand, China basing on MW% of GDP per capita (Sarawak = 31%).
 - ✓ MW rates should be on a 'total compensation' basis and not on a 'basic wages' basis; the need for setting different MW rates for the different sectors in Sarawak were among the recommendations to ensure a sustainable labour market.

Source: Sarawak Timber Association, 2013

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Optimal Design for a Minimum Wages Policy in Malaysia, The World Bank, 2011

- ❖ The World Bank Study -2011
 - ✓ MW at a level of RM1,200 may cause significant reductions in formal employment particularly in the agriculture, textiles, paper manufacturing, food and beverages, paper, glass and rubber. With MW set at RM900, the effect on employment would be very minimum.
 - ✓ MW at RM1,000, will affect the employment of young workers and the elderly.
 - ✓ Reduced employment in the labour-intensive industries, such as low-end manufacturing and tourism.
 - ✓ MW set at RM700 will not affect investment but may slightly decrease if MW is set between RM1,000 – RM1,200.

Source: The World Bank, 2011

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Thank You



<http://www.unimas.my>